

Form ADV Part IIA Brochure

Mendoza & Associates, Inc.

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March 8, 2012

## **Item 1 - Cover Page**

Date: 03-01-2011

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Mendoza & Associates, Inc. is referred to herein as “Advisor.” Associated persons of Advisor are referred to herein as “Advisory Representatives.”

This brochure provides information about the qualifications and business practices of Mendoza and Associates, Inc. If you have any questions about the contents of this brochure, please contact us at (860) 563-1319 and/or [info@mendoza-assoc.com](mailto:info@mendoza-assoc.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Mendoza and Associates, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Mendoza & Associates, Inc. is a registered Investment Advisor and registration does not imply a certain level of skill or training.

## **Item 2 - Material Changes**

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser’s disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Generally, Mendoza & Associates, Inc. will notify clients of material changes on an annual basis. However, where we determine that an interim notification is either meaningful or required, we will notify our clients promptly. In either case, we will notify our clients in a separate document.

### **Item 3 - Table of Contents**

#### **TABLE OF CONTENTS**

|  |             |
|--|-------------|
| Item 1 - Cover Page  | Page (s): 2 |
| Item 2 - Material Changes  | 3           |
| Item 3 - Table of Contents   | 3           |
| Item 4 - Advisory Business   | 4-7         |
| Item 5 - Fees and Compensation                                       | 7-10        |
| Item 6 - Performance-Based Fees and Side-By-Side Management          | 10          |
| Item 7 - Types of Clients  | 10          |
| Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss | 10-11       |
| Item 9 - Disciplinary Information                                    | 12          |
| Item 10 - Other Financial Industry Activities and Affiliations       | 12          |
| Item 11 - Code of Ethics   | 13          |
| Item 12 - Brokerage Practices  | 13-14       |
| Item 13 - Review of Accounts   | 14          |
| Item 14 - Client Referrals and Other Compensation                    | 15          |
| Item 15 - Custody  | 15          |
| Item 16 - Investment Discretion                                      | 15-16       |
| Item 17 - Voting Client Securities                                   | 16          |
| Item 18 - Financial Information                                      | 16          |
| Item 19 - Requirements for State Registered Advisers                 | 16          |

#### **Item 4 - Advisory Business**

Mendoza & Associates, Inc. was formed November 1, 1978. Michael D. Mendoza is the principal owner of the corporation.

Advisor offers financial and retirement planning services. Advisor will gather financial information and history from Client including, but not limited to, retirement and financial goals, investment objectives, investment time horizon, financial needs, cash flow analysis, cost of living needs, educational needs, savings tendencies, and other applicable financial information required by Advisor in order to provide the investment Advisory services requested. Based upon Client's needs, Advisor will prepare a written financial plan addressing Client's needs.

Financial plans are based on the Client's financial situation at the time and are based on financial information disclosed by the Client to the Advisor. Clients are advised that certain assumptions may be made with respect to interest and inflation rates, and use of past trends and performance of the market and economy. However, past performance is in no way an indication of future performance. Advisor cannot offer any guarantees or promises that Client's financial goals and objectives will be met. Further, Client must continue to review and update the plan based upon changes in the Client's financial situation, goals, or objectives, or changes in the economy. Should Client's financial situation or investment goals and objectives change, Client must notify Advisor promptly of the changes. Clients are advised that neither Advisor nor its Advisory Representatives offer any advice or guidance on a Client's property, casualty or liability insurance needs.

Advisor's Financial Plans typically include general recommendations for a course of activity or specific actions a Client should take. For example, recommendations may be made that Clients establish an individual retirement account, increase or decrease funds held in saving accounts, invest monies in certain securities or investments, or obtain new or revise existing insurance coverage. Other financial planning services that Advisor may provide include on-going financial counseling, account review, securities research, and other Advisory services related to investments.

Financial planning services provided to Clients will be outlined in the Client Agreement.

#### **Third Party Management Services**

Advisor and its Advisory Representatives will qualify Clients for investment in certain Third Party Management Services. In order to assist Clients in the selection of a Third Party Manager Service, Advisory Representatives will typically gather information from the Client about Client's financial situation, investment objectives, risk tolerance, as well as any reasonable restrictions the Client wants imposed on the management of the account. Upon review of Client's information, Advisory Representative will recommend the services of a Third Party Manager with which the Advisor has completed due diligence and has a solicitation arrangement. Advisory Representatives will assist the Client in the completion of documents in order to utilize the services of the manager.

Advisory Representatives will monitor the relationship between the Third Party Manager and the Client and will periodically review reports that are provided to the Client. Additionally, the Advisor will contact Client at least annually to review the Client's financial situation and objectives, communicate information to the Third Party Manager as warranted, and assist the Client in understanding and evaluating the services provided by the Third Party Manager. Clients will be expected to notify the Advisory Representatives of any changes in their financial situation, investment objectives, risk tolerance or

account restrictions. Clients may also directly contact the Third Party Manager managing the account or sponsoring the program. Advisor will share in a portion of the Third Party Manager's fee.

Clients should know that the services provided by the Advisor through the use of Third Party Management Services are, under certain conditions, directly offered to Clients by the Third Party Management Services themselves. The fees charged by Third Party Management Services who offer their programs directly to Clients may be more or less than the combined fees charged by the Third Party Management Service and the Advisor for participation in the investment programs. However, when using the services of Third Party Management Service directly, Clients do not receive the Advisor's expertise in developing an investment strategy, selecting a Third Party Management Service, monitoring the performance of an account, and/or changing a Third Party Management Service provider when appropriate.

Currently Advisor has a relationship with the following Third Party Managers:

Advisor offers a mutual fund asset allocation program known as Genworth Financial Wealth Management ("GFWM"). Advisor will assist the Client in establishing a custodial clearing account with an independent third-party custodian to participate in the GFWM program, and may, with the consent of the Client, direct the purchase of no-load mutual funds or load funds at NAV (Net Asset Value) as well as consult with the Client in the selection of individual private account managers.

Advisor does not take any independent discretionary authority over Client accounts. Advisor does, however, offer Clients participation in the GFWM Platform, and asset allocation Platform more fully described in Schedule H of GFWM's Platform Disclosure Brochure. Asset allocations composed by a group of independent investment strategists (Portfolio Strategists) are offered within the Platform, with the different model allocations designed to satisfy a gradient of risk/return objectives. The Portfolio Strategists have no direct relationship with the Advisor or Client. They make no analysis of, nor do they consider the Client's individual circumstances or objectives, and do not tailor the model asset allocation to any specific Client's needs, circumstances or objectives, but only to the stated risk return objectives. Clients with similar objectives may have the same or similar models and/or holdings.

Advisor assists the Client in selecting the risk/return objective and Portfolio Strategists that best suit the Client's objectives. The Client then specifically directs the account to be invested in accordance with the chosen asset allocation. When the Client selects the asset allocation, the Client further directs that the account be automatically adjusted to reflect any adjustment in the asset allocation by the selected Portfolio Strategists. This Client authorization results in the purchase and sale of certain mutual funds or Exchange Traded Funds (ETFs) without further authorization by the client, or any other party at such time as the Portfolio Strategists changes the composition of the selected model asset allocation. The Client may, at any time, impose reasonable restrictions on the management of his/her account or choose a new investment strategy.

The Client receives confirmation of all transactions in the account and is free to terminate participation in the Platform and retain or dispose of any assets in the account at any time. Advisor has no authority to cause any purchase or sale of securities in any Client account, change the selected model asset allocation, or direct the account to be invested in any manner other than as previously authorized by the client.

Advisor also offers a mutual fund asset allocation program with SEI Investments Management Corporation ("SEI"). Advisor may assist the Client in establishing a custodial clearing account with SEI or affiliates of SEI and may, with the consent of the Client, direct the purchase of no-load mutual funds affiliated with SEI in the account (SEI accounts) on a non-discretionary basis.

The Asset Allocation Program composed by SEI has different model allocations designed to satisfy a gradient of risk/return objectives. SEI has no direct relationship with the Advisor or Client. They make no analysis of, nor do they consider the Client's individual circumstances or objectives, and do not tailor the model asset allocation to any specific Client's needs, circumstances or objectives, but only to the stated risk return objectives. Clients with similar objectives may have the same or similar models and/or holdings.

Advisor assists the Client in selecting the risk/return objective that best suits their objectives. The Client then specifically directs the account to be invested in accordance with the chosen asset allocation. When the Client selects the asset allocation, the Client further directs that the account be automatically adjusted to reflect any adjustment in the asset allocation made by SEI. This Client authorization results in the purchase and sale of certain mutual funds without further authorization by the Client, or any other party at such time as SEI changes the composition of the selected model asset allocation. The Client may, at any time, impose reasonable restrictions on the management of his/her account or choose a new investment strategy.

The Client receives confirmation of all transactions in the account and is free to terminate participation in the Platform and retain or dispose of any assets in the account at any time. The Advisor has no authority to cause any purchase or sale of securities in any Client account, change the selected model asset allocation, or direct the account to be invested in any manner other than as previously authorized by the Client.

#### VISION2020 Advisor Program

The Advisor offers its Clients the VISION2020 Advisor Program ("V2A" or "Program") sponsored by Royal Alliance. The Program provides comprehensive investment management of Client assets through the provision of web based asset allocation tools, as well as execution, clearing and custodial services.

Investment Advisory Representatives work with Clients to identify their investment goals and objectives in order to create an initial portfolio allocation designed to complement the client's financial situation and personal circumstances. V2A provides a risk tolerance assessment, efficient frontier plotting, fund profiling and performance data, and portfolio optimization and rebalancing tools. Utilizing these tools, and based on the Client's responses to a risk tolerance questionnaire or discussions that the Advisory Representatives have with Clients regarding among other things, investment time horizon, account restrictions, and overall financial situation, the Advisory Representatives construct a portfolio of investments for Clients.

The Investment Advisory Representatives create portfolios consisting of various securities that may include stocks, bonds, options, ETFs, or mutual funds. The investment strategies utilized in V2A depend upon the individual Client's investment objectives and goals as provided to the Investment Advisory Representative. Model portfolios, option trading and/or margin may be employed as a part of the chosen strategy. Portfolios are constructed along basic investment objective categories; however, each Client has the opportunity to place reasonable restrictions on the type of investments to be held in the portfolio. The Advisory Representatives may periodically rebalance Client accounts. Clients with similar objectives may have the same or similar models and/or holdings. Clients are also provided a V2A Wrap Fee Program Brochure either prior to or concurrent with their enrollment in V2A and are advised to read it thoroughly before investing.

As of December 31, 2011, the Advisor had approximately \$42,500,000 in total assets under management. \$9,000,000 of which in non-discretionary assets under management using SEI and GFWM (Third Party Management Services), and approximately \$33,500,000 in discretionary assets under management using V2A.

## **Item 5 -Fees and Compensation**

### **Financial Planning Fees:**

The financial planning fee is determined after completion of the data review session. When a determination can be made of the approximate time required to complete the plan, the agreed upon fee is established. This fee may range from \$1,500 to \$5,000, and will be included in the agreement prior to the Advisory Client signing the agreement. Fees are negotiable; however, once the fee is mutually agreed upon, it is included in the Financial Consulting Agreement and paid in one payment. Fee is due upon execution of the agreement. The initial plan will generally be presented to the client within 30-90 days. The engagement grants the client access to Advisor for a period of one year. This agreement will terminate at the end of 12 months. Thereafter, Client may renew the annual engagement and receive an annual review. The renewal fee will be due in the anniversary month.

Client contact, consultation and review will be periodic throughout the year based on Client's preference. In no situation will a client be charged 6 or more months in advance for services. The Client may terminate the Financial Consulting Agreement without penalty within 5 business days from the date set forth on the contract and the entire fee will be refunded. After 5 business days, and prior to the delivery of the plan, there will be a pro-rata refund of the fee after the deduction of a reasonable amount for the work that has been completed up to that point. There will be no refund if the Agreement is terminated after the delivery of the plan. Client is advised that fees for financial planning are strictly for financial planning services. Therefore, Client may pay fees and/or commissions for additional services obtained such as asset management, or products purchased such as securities or insurance.

When Clients receive financial planning services from Advisor, they are advised that Advisory Representatives are also Registered Representatives of Royal Alliance Associates, Inc., a registered broker/dealer, member of the Financial Industry Regulatory Authority ("FINRA") and SIPC. Therefore, Advisory Representatives may have a conflict of interest in that they offer, and may recommend various other securities or insurance products for which they may be paid a commission. They would receive those commissions as Registered Representatives of Royal Alliance or as Insurance Agents in connection with such transactions. Thus, there may be an incentive for them to recommend specific courses of action through financial planning services that may lead to additional compensation. Although Advisor's security sales are reviewed for suitability by an appointed supervisor at Royal Alliance, Clients are encouraged to ask about any conflicts presented, and are under no obligation to purchase products or services recommended by Advisory Representatives in connection with the financial planning services. Clients may purchase products or services through an unaffiliated broker.

When the Advisor recommends Advisory accounts with GFWM, SEI, or V2A, no-load or load at NAV (Net Asset Value) funds are used. Therefore, the client does not pay an up-front sales commission in addition to the Advisory fee. If the Advisor recommends mutual funds not in an Advisory program, an up-front sales commission could be paid. In these situations, the Advisor will always try to incorporate Rights of Accumulation or a Letter of Intent to reduce any sales charges.

Mutual fund investments may be subject to early redemption fees, mutual fund management fees, as well as other mutual fund expenses. Load and no-load mutual funds may also pay annual distribution charges or trail commissions sometimes referred to 12b-1 fees. These fees come from fund assets, therefore, indirectly from Client assets. These fees are paid directly to Royal Alliance and a portion is passed on to the Advisor. The receipt of such fees could represent an incentive for Advisory Representatives to recommend funds with 12b-1 fees over funds that do not and create a potential conflict of interest; however, the Advisory Representatives do not factor 12b-1 fees into their research process. Mutual fund prospectuses are provided to Clients for each recommended mutual fund which further explains the above-mentioned fees and expenses. When considering investment recommendations for Clients, the Advisory Representatives always place the interest of their Clients first.

### Third Party Management Fees:

Genworth Financial Wealth Management Client fees are payable quarterly, in advance, on a non-tiered basis and allow for account aggregation with like accounts, based on assets under management using the fee schedules below. Clients may terminate GFWM accounts at any time and receive a full pro-rata refund of any unearned fees. Royal Alliance provides certain assistance to GFWM and will receive an administrative fee collected by GFWM. While Clients who have these GFWM accounts may also be Clients of other Royal Alliance Advisory programs, Mendoza & Associates, Inc. is the Investment Advisor with respect to the GFWM accounts and not Royal Alliance. The fee schedules are as follows:

### Mutual Fund/ETF/VA Accounts:

| <u>Amount Invested</u> | <u>Maximum Advisory Fee</u> | <u>Maximum Program Fee</u> |
|------------------------|-----------------------------|----------------------------|
| First \$250,000        | 1.55%                       | 0.75%                      |
| Next \$250,000         | 1.40%                       | 0.70%                      |
| Next \$500,000         | 1.20%                       | 0.65%                      |
| Next \$1,000,000       | 0.90%                       | 0.55%                      |
| Next \$2,000,000       | 0.60%                       | 0.45%                      |

### Privately Managed Accounts:

| <u>Amount Invested</u> | <u>Maximum Advisory Fee</u> | <u>Maximum Program Fee</u> |
|------------------------|-----------------------------|----------------------------|
| First \$250,000        | 1.75%                       | 0.75%                      |
| Next \$250,000         | 1.40%                       | 0.50%                      |
| Next \$500,000         | 1.25%                       | 0.50%                      |
| Next \$1,000,000       | 0.95%                       | 0.45%                      |
| Next \$1,000,000       | 0.75%                       | 0.45%                      |
| Next \$2,000,000       | 0.60%                       | 0.40%                      |

SEI Client fees are payable quarterly, in arrears, on a non-tiered basis and allow for account aggregation, based on assets under management using the fee schedule below. Clients may terminate SEI accounts at any time and will have the pro-rata portion of the current quarterly fee deducted prior to refunding the balance of the account. Royal Alliance provides certain assistance to SEI or its affiliates and will receive an administrative fee collected by SEI. While Clients who have these SEI accounts also may be Clients of other Royal Alliance advisory programs, Mendoza & Associates, Inc. is the Investment Advisor with respect to the SEI accounts and not Royal Alliance. The fee schedule is as follows:



| <u>Account Size</u> | <u>Maximum Advisor Fee</u> |
|---------------------|----------------------------|
| First \$250,000     | 1.00%                      |
| Next \$250,000      | 0.90%                      |
| Next \$500,000      | 0.75%                      |
| Next \$1,000,000    | 0.55%                      |
| Next \$2,000,000    | 0.35%                      |

The Vision2020 Advisor Program is offered as an account where no separate transactions charges apply and a single fee is paid (“Wrap Fee”) which includes advisory services, custody, brokerage, and administrative fees. In Wrap Fee accounts, the Client pays a quarterly account fee in advance, based upon the market value of the assets held in the Client's account as of the last business day of the preceding calendar quarter. The fee structure is tiered and allows for account aggregation. Account fees are non-negotiable. If a Wrap Fee program is selected, the Client will also receive the schedule H or equivalent Wrap Fee Brochure provided by the sponsor of the Program, Royal Alliance.

In computing the market value of assets, mutual fund shares will be calculated at their respective net asset values as of the valuation date in accordance with each mutual fund prospectus. With respect to Client accounts that utilize margin, the “net worth” or “net equity” value of the account, not the long or short market value, shall be used to determine the Client Advisory fee. With respect to Client accounts that purchase or sell option contracts, the positive or negative value of the option will be included in the net equity value of the account for purposes of determining the Client Advisory fee. Clients should be aware that option contracts are a “wasting” asset, in that they have value only through the date on which they expire. If call option contracts are sold in conjunction with securities held in a Client account, (often referred to as “covered call options”) the cash received on the sale of the option may have the effect of temporarily increasing the net equity value of the Client account, and thus increasing the amount of the Client Advisory fee.

In the event the account is terminated, or that additions to, or withdrawals from the account are made during any given quarter, the applicable fee will be adjusted on a pro-rata basis to the account from which the charge was debited, based on the market value of the assets at such time to reflect the addition or withdrawal. The Advisor does not bill directly as the fees are deducted from the client accounts quarterly. Clients will receive a full account fee refund in the event that they terminate the client agreement with us within 5 business days of signing. If Client terminates after the first 5 days, the account fee will be credited back on a pro-rata basis for the unused portion of the quarter. The fee schedule is as follows:

Wrap Fee Schedule:

| <u>Amount Invested</u>     | <u>Maximum Advisory Fee</u> | <u>Maximum Program Fee</u> |
|----------------------------|-----------------------------|----------------------------|
| \$50,000 - \$99,999        | 1.65%                       | 0.00%                      |
| \$100,000 - \$249,999      | 1.40%                       | 0.40%                      |
| \$250,000 - \$499,999      | 1.375%                      | 0.375%                     |
| \$500,000 - \$749,999      | 1.30%                       | 0.35%                      |
| \$750,000 - \$1,249,999    | 1.275%                      | 0.325%                     |
| \$1,250,000 - \$1,999,999  | 1.20%                       | 0.30%                      |
| \$2,000,000 - \$4,999,999  | 0.875%                      | 0.275%                     |
| \$5,000,000 - \$24,999,999 | 0.55%                       | 0.25%                      |
| Over \$25,000,000          | 0.475%                      | 0.225%                     |

Advisory Representatives may receive such benefits such as assistance with conferences and educational meetings by product sponsors assisting with the costs of such events.

Clients will be charged an additional fee of \$1.50 for each trade confirmation and statement that is not received electronically. There are additional fees relating to IRA and Qualified Retirement Plan accounts that Clients may incur such as ongoing maintenance and termination fees. These fees are disclosed in the account application paperwork provided to Clients associated with these accounts.

#### **Item 6 – Performance –Based Fees and Side-By-Side Management**

The Advisor does not charge any performance based fees.

#### **Item 7 –Types of Clients**

The majority of the Advisor's clients are individuals either retired or nearing retirement.

The account size minimums vary for each Third Party Advisory Service, however, most of them are generally at \$50,000, but that information is fully disclosed in each of the Third Party Service's individual ADV, as well as in the associated paperwork that is given to Clients. The minimum account size for V2A is \$50,000.

#### **Item 8 -Methods of Analysis, Investment Strategies and Risk of Loss**

Prior to making any investment recommendations, the Advisor asks all Clients to complete a risk profile questionnaire to help determine the amount of risk they are willing to assume in their portfolio. Their answers will help determine an asset allocation profile that is suitable for them.

When analyzing investments and investment managers that may be appropriate for a Client, Advisor researches investment managers through Morningstar's Analytical Program who use both Fundamental and Technical Analysis. Fundamental analysis is security analysis grounded in basic factors such as company earnings, balance sheet variables, and management quality which are used to predict the future value of an investment. Information such as interest rates, GNP (Gross National Product), inflation and unemployment may be used to predict the direction of the economy and therefore the stock market. Technical analysis is the practice of using statistics to determine trends in security prices and make or recommend investment decisions based on those trends. Technical analysis focuses on matters such as trade volume, demand, and volatility to help determine the market forces at work on a certain security or on the securities market as a whole.

When researching Third Party Advisory Services, the Advisor analyzes the longevity of the firm, the methodology used in their investment process, and their investment performance as compared to relative benchmarks. The Advisor will continue to monitor the Third Party's process and performance, and make changes or additional recommendations as needed.

Subject to suitability requirements, Advisor generally advises the long-term purchase of mutual funds to Clients. Long-term purchases are typically defined as the purchase of securities held for at least a year.

#### Associated Risks:

When using Fundamental Analysis, the investment managers selected by the Advisor generally rely on, among other things, company earnings, balance sheet variables and management quality which are used to predict the future value of an investment. Data they review is generally considered reliable but cannot be guaranteed for its accuracy. In addition, the data that they review is sometimes subjective in nature and open to interpretation. Even if the data and interpretations of the data are correct, there may be other factors that determine the value of securities other than those considered in Fundamental Analysis.

When using Technical Analysis, the managers selected by the Advisor generally review statistics to determine trends in security prices and make their investment decisions based on those trends. This analysis may only be able to predict how an investment will perform short-term. In addition, this analysis does not take into account the more fundamental properties of what an investment may be worth, such as company performance and balance sheet variables, which may play a part in determining the value of an investment.

When pursuing a long-term purchase strategy, Advisor assumes that Financial Markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that Clients are invested in, or perhaps just a Client's particular investment, will go down over time even if the overall Financial Markets advance. In addition, purchasing investments long-term may create an opportunity cost by "locking-up" assets that may be better utilized in the short-term in other investments.

Advisor primarily recommends mutual funds to Clients. Investing in mutual funds involves the assumption of risk including:

- **Manager Risk:** Which is the risk that an actively managed mutual fund's investment manager will fail to execute the fund's stated investment strategy.
- **Market Risk:** Which is the risk that the Stock Market will decline, decreasing the value of the securities contained within the mutual funds recommended to Clients.
- **Industry Risk:** Which is the risk that a group of stocks in a single industry will decline in price due to adverse developments in that industry, decreasing the value of mutual funds that are significantly invested in that industry.
- **Inflation Risk:** Which is the risk that the rate of price increases in the economy deteriorates the returns associated with the mutual fund.

Listed above are some of the primary risks associated with the way the Advisor recommends investments for Clients. Clients should not hesitate to contact the Advisor to discuss these risks and/or others in more detail. In instances where the Advisor recommends that a Third Party manage Client assets, please refer to the Third Party's ADV and associated disclosure documents for details on their investment strategies, methods and analysis, and associated risks.

Advisor also offers advice on a Limited Partnership that utilizes professional commodity trading Advisors to engage in the trading of commodity futures contracts, other commodity interests, forward contracts, options, swaps and securities. This program has substantial volatility; therefore, it is not suitable for all clients.

Advisor does not represent, warrant or imply that the services or methods of analysis used by Advisor can or will predict future results, successfully identify market tops or bottoms, or insulate Clients from losses due to major market corrections or crashes.

***Investing in securities involves risk of loss that Clients should be prepared to bear.***

## **Item 9 – Disciplinary Information**

The Advisor and/or Advisory Representatives have not had any legal or disciplinary actions brought against them.

## **Item 10 –Other Financial Industry Activities and Affiliations**

Other than the Third Party Advisors of GFWM and SEI, the Advisor does not recommend any other Third Party Advisor Services.

Because the Advisory Representatives are also Registered Representatives of Royal Alliance, Royal Alliance has certain supervisory and administrative duties pursuant to the requirements of FINRA Conduct Rule 3040. In that regard, Royal Alliance will require and furnish certain account opening documentation to be completed by the Client and the Advisory Representatives. Once all such materials and forms have been completed by Clients in consultation with their Advisory Representatives, the Advisory Representatives are required to submit these materials and forms to Royal Alliance for its review and approval in its capacity as the Broker/Dealer of record. Such review does not include the provision of investment Advisory services to the Advisor's Client accounts.

Advisory Representatives may have limited access to certain product sponsors where selling agreements have been executed by Royal Alliance. FINRA Conduct Rule 3040 may also restrict Registered Representatives from conducting securities transactions away from Royal Alliance unless Royal Alliance provides the Representative with written authorization. Therefore, Clients are advised that Advisory Representatives may be limited to conducting securities transactions through Royal Alliance and its clearing firm, Pershing. Clients are also advised that account maintenance fees and transaction charges may be higher or lower at Royal Alliance than at other broker/dealers offering similar services.

In certain instances, Royal Alliance will collect, as paying agent for the Advisor, the investment advisory fee due the Advisor from the account custodian. Royal Alliance will retain a portion as an administrative charge to the Advisor (not the Client) for the functions Royal Alliance is required to carry out by FINRA. Royal Alliance does not provide investment Advisory services in connection with such programs

Certain Third Party Investment Advisors may also execute transactions through Royal Alliance. Sun America Trust Company, an affiliate of Royal Alliance, or another affiliate of Sun America, may act as custodian and receive compensation in connection with certain Third Party Advisory programs.

Advisory Representatives may, from time to time, recommend investment products to Clients including mutual funds, variable and fixed annuities, and other insurance products sponsored by Sun America or AIG affiliates. Such recommendations might be deemed to create a conflict of interest because they may result in an increase in compensation for Royal Alliance affiliates and Advisory Representatives.

The Advisory Representatives do not factor in additional compensation when determining a course of action for a Client. The Advisory Representatives will always recommend investments and/or products that are most suitable for each Client regardless of the compensation paid.

## **Item 11–Code of Ethics**

In accordance with Section 204A of the Investment Advisors Act of 1940, the Advisor’s Code of Ethics includes the following:

- The duty at all times to place the Client’s interest first.
- The principle that independence in the investment decision process is paramount.
- The requirement that all personal security transactions be conducted in such a manner as to be consistent with the Code, and to avoid any actual or potential conflict of interest or abuse of any employee’s position of trust and responsibility.
- Standard of Business Conduct – Outlines the standards of conduct expected of Advisory Representatives and supervised persons, as well as fiduciary duties.
- Compliance with Federal Securities Laws
- Personal Securities Reporting
- Pre-approval of certain transactions
- Reporting of Code Violations
- Safeguarding of Material non-public information about client transactions

A copy of Advisor’s Code of Ethics will be provided to any Client or prospective Client upon request.

## **Item 12–Brokerage Practices**

As previously discussed, the Advisory Representatives of the Advisor are Registered Representatives of Royal Alliance, a broker/dealer. Therefore, all security transactions in the V2A are implemented through Royal Alliance. The Advisor has selected Royal Alliance because of the independence and non-requirement of proprietary products being used. In order to meet its FINRA supervisory obligations, Royal Alliance requires that all investment Advisory activities conducted by the Advisor be processed through Royal Alliance’s clearing relationships with Pershing LLC (“Pershing”). As a result, the Advisor does not have the discretion to choose the broker-dealer or commission rates to be paid. However, Advisor does believe that Pershing’s blend of execution services, commission and transactions costs, as well as their professionalism will allow the Advisor to seek best execution and competitive prices.

The third party managers GFWM and SEI provide their own custody and trading and the charges are reflected in the WRAP Fee accounts.

Advisor may aggregate Client orders with those of other Clients in a bunch trade or trades when securities are purchased or sold. For each account included in a bunch trade, Advisor must reasonably believe that the bunch order is consistent with the Advisor’s duty to seek the best execution, and may benefit Clients participating in the aggregated order. The average price per share of each bunch trade is allocated to each Client account that participates in the bunch trade. Client accounts that participate in the same bunch trade are charged transaction costs, if applicable, in accordance with their Advisory contracts.

If a bunch order cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated in a manner that is consistent with the initial pre-allocation. Partial fills will be allocated in a way that does not consistently advantage or disadvantage particular Client accounts and are generally filled pro-rata among participating accounts.

The aggregation and allocation practices of mutual funds and Third Party Managers that Advisor recommends to Clients are disclosed in the respective mutual fund prospectuses and Third Party Manager

disclosure documents that are provided to Clients.

The Advisor does not receive any soft dollars however, under GFWM's Gold/Platinum Premier Consultant Program, Advisor is entitled to receive a quarterly business development allowance for reimbursement for qualified marketing/practice management expenses incurred by the Advisor. These amounts range from \$5,000 to \$105,000 annually, depending on the amount of the Advisor's Client assets managed with the Platform.

GFWM may also bear the cost of airfare for Advisors to attend GFWM's annual conference, or to conduct due diligence visits to GFWM's offices. In addition, GFWM may, from time to time, contribute to the cost incurred by participating Advisory firms in connection with conferences or other Client events conducted by such firms and their Advisory Representatives.

GFWM may also provide opportunities for participating firms such as the Advisors to receive fee reductions and/or allowances in the amounts ranging from .02% - .07% of the amount of Client assets invested through the Platform. These arrangements are entered into between GFWM and a firm such as the Advisors on an individually negotiated basis. Advisor may agree to provide GFWM with introductions to and information about its Advisory Representatives, provide the Representatives with information concerning GFWM's platform and products, and permit GFWM to participate in broker/dealer meetings and workshops. In addition to the fee reductions and/or allowances granted the Advisory firm by GFWM, GFWM may agree to provide the Advisory firm or its Representatives with organizational consulting, education, training and marketing support. To date, the Advisor has not received any quarterly business development allowances, fee reductions, or any other allowances from GFWM.

### **Item 13—Review of Accounts**

All reviews will be conducted by Advisory Representatives (Michael Mendoza, Kenneth Mendoza, or both), with Clients not less than annually or as agreed by Client and Advisory Representative. Clients may request more frequent reviews and may set thresholds for triggering events that would cause a review to take place. Generally, Advisory Representatives will monitor for changes or shifts in the economy, changes to the management and structure of a mutual fund or company in which Clients assets are invested, and market shifts and corrections.

Clients are advised that they should notify their Advisory Representatives promptly of any changes to their financial goals and objectives, or financial situation; as such changes may require Advisory Representatives to review the Client's portfolio and make recommendations for changes. Third Party Manager Accounts such as SEI and GFWM are reviewed quarterly. Financials plans will be reviewed periodically as needed as a result of qualifying events or at the request of a Client. Accounts are not assigned to a particular Advisory Representative and there is no limited to the number of accounts serviced.

#### **Item 14–Client Referrals and Other Compensation**

The Advisor does not compensate anyone for Client referrals.

The Advisor does not receive any sales awards or prizes other than participating in the educational conferences provided by Royal Alliance.

As previously discussed, the Advisory Representatives are also Registered Representatives of Royal Alliance. This arrangement requires Advisor to offer Clients Advisory services and programs sponsored or approved by Royal Alliance. Royal Alliance sets limits on how much Advisor can charge Clients for these Advisory services. Some Advisory programs have higher fee limits than others. As such, there may be an incentive for Advisory Representatives to recommend to Clients Advisory services or programs with higher limits. In addition, Royal Alliance may charge Advisor certain usage fees and expenses to use their Advisory programs which may decrease the amount of compensation Advisor makes when offering investment advice to Clients. Therefore, there may be an incentive to provide Clients with Advisory programs and services that may be less expensive for the Advisor to use, but not as suitable to Client needs as other Advisory programs that Royal Alliance sponsors which may be more expensive for the Advisor to use.

In addition, Royal Alliance offers Advisory Representatives educational, training, and incentive programs for those Representatives that meet certain sales production goals. There may be an incentive for the Advisor to manage Client accounts in ways that assist the Advisor in meeting these production goals even if such strategies may not always be suitable for Client accounts.

Certain Third Party Advisory Service programs may provide Advisory Representatives with the opportunity to attend training or education conferences. Such conferences include the payment or reimbursement of travel, meals and lodging expenses for attendees. Payment/reimbursement of expenses is not contingent upon sales targets or contests, but rather on total assets managed on their respective Third Party Advisory Service Platforms. Advisor may have an incentive to recommend Third Party Advisory Service programs that provide the above-referenced opportunities over those that do not.

Royal Alliance has provided Advisory Representatives with funding in the form of loans, as incentives to establish, maintain or expand the Advisor's broker-dealer relationships with Royal Alliance. Such loans are typically used to assist in the transition and expansion of the Advisor's practice. All or a portion of the loans require cash repayments of principal and interest if specific productions levels are not achieved over a specified time frame. In any year which the practice achieves its production levels, a pro-rata loan forgiveness is initiated by Royal Alliance. Thus, there may be an incentive for Advisor to offer Advisory services and programs to Clients that may not be suitable, in an effort to achieve specific production levels. The Advisor and its Advisory Representatives always places the interest of their Clients first.

#### **Item 15 – Custody**

Advisor does not have custody of Client assets. Clients will receive statements directly from qualified custodians and should review the statements carefully.

#### **Item 16–Investment Discretion**

Under the V2A Program, Clients may grant Advisor authorization to manage Client's account on a discretionary basis. Discretionary authorization provides Advisor the ability to determine the securities to

be purchased and sold and when such securities are purchased and sold. Client will grant such authority to Advisor by execution of the Client Agreement. Client may terminate discretionary authorization at any time by sending written notice to the Advisor. Additionally, Client is advised that:

Client may set parameters with respect to when account should be rebalanced and set trading restrictions or limitations;

- 1) Advisory Representatives must obtain written Client consent to establish any mutual fund, variable annuity, or brokerage account.
- 2) Advisor requires the use of Advisory Representative's broker/dealer for sales in commissionable mutual funds or variable annuities.
- 3) With the exception of the deduction of Advisory fees from Client's account, if Client has authorized automatic deductions, Advisor will not have the ability to withdraw Client's funds or securities from Client accounts.

Advisor does not have discretionary authorization when recommending Third Party Manager Services such as GFWM and SEI.

#### **Item 17–Voting Client Securities**

The Advisor does not vote Proxy Material for Clients. Each Client is responsible for voting all proxy materials.

#### **Item 18-Financial Information**

When a decision is made to rebalance a Client's portfolio and one Advisory Representative is not able to implement the transaction, then another Advisory Representative in the office can do so.

The Advisor has not been subject of a bankruptcy petition during the past ten years.

The Advisor does not require any prepayment of fees of more than \$1,200.00 per Client, or six or months in advance.

Advisor is well capitalized and in full compliance with applicable regulations, and does not foresee any financial conditions that may impair Advisor's fulfillment of reasonable obligations or contractual commitments to Clients.

#### **Item 19 –Requirements for State Registered Advisors**

Advisor is currently registered with the SEC and not with a particular state.